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March 14, 2006

AGENDA ITEM 7 **REVISED**

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Long-Term Care Program: Second Reading – Program Recommendations

II. PROGRAM: Long-Term Care

III. RECOMMENDATION: Staff recommends that the Board approve an Application Period for 2006 and approve in concept that 2006 rates will include appropriate surplus margin to reflect moderately adverse conditions

IV. ANALYSIS and DISCUSSION:

The Long-Term Care Advisory Committee (Advisory Committee) met on March 6, 2006, to discuss the adequacy of the 2005 rates for possible use during a 2006 application period and the potential additional cost to the Long-Term Care Program (Program) to delay a mitigation plan by one or two years. The Program's consulting actuary, United Health Actuarial Services, Inc., had provided the Committee with a written opinion (attached) covering both topics. The cost of a delay in addressing the estimated Program deficit was identified to be approximately $40 million for each year of delay. With this background, the Advisory Committee determined that a delay was not appropriate and that they would address a mitigation strategy in three phases.

The three phases are:
- Review 2005 rates for use in 2006
- Address adequacy of the 2005 rates and recommend any appropriate adjustments
- Address required rate increase for the 2004 and prior rates

After substantial discussion of the adequacy of the 2005 rates, the Advisory Committee determined that it was appropriate to request Board approval of a 2006 application period but that the 2006 rates should be not be based on the 2005 rates. Instead, the 2006 rates should be determined in a manner to build in an appropriate reserve. After discussion with the consulting actuary, the Advisory Committee concluded that the 2006 rates should include an appropriate margin to reflect moderately adverse conditions. The American Society of Actuaries (ASA) has defined moderately adverse conditions for Long-Term Care policies to mean conditions that include one or more unfavorable, but not extreme events, and events that have a reasonable probability of occurring during the estimation or projection period.

Typically, that means that the rates would include an additional 10-20% margin above break-even to cover deviations from assumptions.

Rates for the Program have traditionally been configured on the basis of a “best estimates” valuation with a break-even approach; a specific reserve was not included. The expectation was that reserves would accrue to the Program as a result of superior investment performance. The proposed change in approaching rates will move the Program in the direction of insurance industry and ASA standards.

For 2005, the Board did approve an increase in the upper threshold for consideration of any reductions in premiums and/or increase in benefits without a corresponding increase in premium to a valuation surplus of 20%. Therefore the addition of a 10-20% margin is consistent with prior Board action.

The proposed 2006 rates will be discussed at the Advisory Committee meeting scheduled for April 4th. These rates should be ready for Board consideration at the April Health Benefits Committee meeting.

Staff and the Advisory Committee will continue to work collaboratively with the Program’s consulting actuary to address the second and third phases of the mitigation proposal. It is anticipated that the rates resulting from these discussions will also include appropriate margins. These proposed rates should come to the Board at the May Health Benefits Committee meeting.

Recommendations

Staff recommends that the Board approve a 2006 application period that would begin in July and run through September. Staff also recommends that the Board approve the concept that the Program rates for 2006 will reflect a margin for moderately adverse conditions.

Staff will continue to meet with Advisory Committee to address potential changes to 2005 and earlier rates to reflect the new rate methodology. These items are to be addressed in future meetings in conjunction with a comprehensive discussion of the mitigation plan to address the deficits identified in the 2005 valuation report.

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Attachment